



April 26, 1999

The Honorable Steve Peace, Chair
Joint Legislative Budget Committee
State Capitol, Room 3060
Sacramento, CA 95814

Dear Senator Peace:

Pursuant to the Supplemental Report of the 1998 Budget Act, 1998-99 Fiscal Year, Item 1760-001-0001, Prompt Payment, enclosed is the Department of General Services' report to the Legislature on State Agency Prompt Payment Discounts and Penalties.

If you have any questions regarding this report, please contact Dennis Ericson, Acting Deputy Director, Procurement Division, Department of General Services at (916) 324-2250.

Sincerely,

CLIFF ALLENBY Interim Director
Department of General Services

CA:PJ:lf

Enclosure

cc: Rick Simpson, Legislative Secretary, Office of the Governor
Happy Chastain, Deputy Secretary-Legislation, State and Consumer Services Agency
Karen L. Neuwald, Assistant Director-Legislation
Dennis Ericson, Acting Deputy Director, Procurement Division
Patricia Jones, Manager, System Integrity, Procurement Division

**REPORT TO THE LEGISLATURE
STATE AGENCY PROMPT PAYMENT DISCOUNTS AND PENALTIES**

March 1, 1999

The Department of General Services (DGS) submits this report pursuant to the Supplemental Report of the 1998 Budget Act, 1998-99 Fiscal Year.

Item 1760-001-0001

Department of General Services

Prompt Payment. The Department of General Services (DGS) shall submit a report by March 1, 1999, to the chairs of the budget committees of both houses of the Legislature and to the Joint Legislative Budget Committee. The report shall include those state agencies, which incur late penalty payments or failed to take advantage of prompt pay discounts in the 1997-98 fiscal year. In addition, the report shall include the total amount incurred by the state absent the lack of a prompt payment discount policy.

It is the intent of the Legislature that state agencies avail themselves of early payment discounts to the fullest extent possible. Furthermore it is the Legislature's intent that the DGS establish procedures and guidelines to enable state agencies to evaluate, implement, and monitor the use of early payment discounts as proposed by suppliers in solicitations.

SUMMARY

Attached, as reported to the DGS, is an unaudited report detailing the dollar amounts incurred by state agencies as a result of late payments, and also the savings lost as a result of failure to pay quickly enough to earn a prompt payment discount. In response to the intent language, we also discuss the DGS policy on prompt payment discounts.

For the purpose of this report, the following definitions apply:

- *Late Payment Penalties* are those interest penalties due to the contractor when undisputed invoices are not paid within the time period required by law.
- *Prompt Payment Discounts* are those discounts offered by contractors on their invoices as an incentive for a state agency to pay the invoice quickly; for example, "2% 10 days, Net 30". This means that if the state agency pays the invoice within ten days they may calculate and subtract from the total amount due, two percent of the invoice. If the invoice is not paid within ten days, then the full "net" amount of the invoice is due and the discount cannot be taken when payment is made.

Department of General Services Procedures, Guidelines and Activities

In 1997, the DGS established a policy that prompt payment discounts, if offered by bidders, would no longer be considered in the evaluation of bids for the purpose of determining the low bidder. The policy was first published as part of the Price/Cost Analysis procedure dated October 1997, and a separate policy statement was also issued.

The reason for establishing this policy is simple. Despite all the best intentions, there simply is no guarantee state agencies will be able to process the invoices quickly enough to take the offered discount.

The illustration below may help readers to understand this concept:

	Supplier #1	Supplier #2
Bid Price	\$1,000	\$ 975
Payment Terms Offered	5% 10 days, Net 30	Net 30 days
Prompt Payment Discount	\$ 50	-0-
Total Evaluated Amount	\$ 950	\$ 975

If the state included the prompt payment discount in the bid evaluation, the contract would have been awarded to Supplier #1. However, if the state agency failed to pay the invoice in time to take the prompt payment discount, then, in this example, the state would not have awarded the contract to the lowest bidder, as Supplier #2's bid of \$975 is lower than Supplier #1's offer of \$1,000.

The DGS is currently in the process of developing the "California Acquisition Manual" (CAM) for all purchasing and materials management processes. The CAM contains a chapter on Prompt Payment that includes invoice preparation and processing instructions. We also include the policy of requiring state agencies to make prompt payment to suppliers in accordance with the law and the terms they offer, including taking discounts for prompt payment when offered. This is in addition to State Administrative Manual (SAM) Section 8113, Discount Invoices which encourages state agencies to pay from their respective Revolving Funds, invoices that include prompt payment discounts.

**DEPARTMENT OF GENERAL SERVICES
PROMPT PAYMENT REPORT TO THE LEGISLATURE**

AGENCY NAME	#1 DISCOUNTS NOT TAKEN	#2 PENALTIES PAID
Agricultural Labor Relations Board	\$0	\$0
Air Resources Board	\$0	\$248
Board of Chiropractic Examiners	\$0	\$0
Board of Control	\$7,339	\$0
Board of Corrections	\$79	\$0
Board of Equalization	\$0	\$0
Board of Governors California Community Colleges	\$0	\$0
Business Transportation and Housing Agency	\$47	\$130
Cal Poly Pomona	\$0	\$0
California Integrated Waste Management Board	\$112	\$0
California Alternative Energy & Advance Transportation	\$0	\$0
California Coastal Commission	\$0	\$250
California Conservation Corps	\$0	\$661
California Debt & Investment Advisory Commission	\$2	\$0
California Debt Allocation Committee	\$0	\$0
California Department of Aging	\$0	\$163
California Department of Corrections	\$520,417	\$92,589
California Department of Education	\$5,101	\$920
California Department of Forestry and Fire Protection	\$18,838	\$6,075
California Educational Facilities Authority	\$0	\$0
California Environmental Protection Agency	\$0	\$0
California Exposition and State Fair	\$0	\$0
California Health and Human Services Agency	\$0	\$0
California Health Facilities Financing Authority	\$0	\$0
California Highway Patrol	\$28,603	\$5,809
California Horse Racing Board	\$2	\$0
California Housing Finance Agency	\$0	\$0
California Industrial Development Financing	\$0	\$0
California Law Revision Commission	\$0	\$0
California Pollution Control Financing Authority	\$1	\$0
California Public Employees' Retirement System	\$0	\$0
California Public Utilities Commission	\$0	\$0
California School Finance Authority	\$0	\$0
California Science Center	\$845	\$56
California State Library	\$786	\$0
California State Lottery	\$0	\$997
California State Summer School/Arts	\$0	\$0
California State University, Fresno	\$0	\$0
California State University, Hayward	\$0	\$0
California State University, Long Beach	\$0	\$0
California State University, Office of the Chancellor	\$0	\$0
California Student Aid Commission	\$0	\$0
California Tax Credit Allocation Committee	\$0	\$0
California Trade and Commerce Agency	\$0	\$0
California Transportation Commission	\$0	\$0
California Unemployment Insurance Appeals Board	\$0	\$0

**DEPARTMENT OF GENERAL SERVICES
PROMPT PAYMENT REPORT TO THE LEGISLATURE**

AGENCY NAME	APPROPRIATION	PAYMENT STATUS
California Urban Waterfront Area Restoration Financing Authority	\$0	\$0
Child Development Policy Advisory Center	\$0	\$0
Coachella Valley Mountains Conservancy	\$0	\$0
Commission on Peace Officer Standards & Training	\$0	\$0
Commission on State Government & Economy	\$0	\$0
Commission on State Mandates	\$0	\$0
Commission on Teacher Credentialing	\$1,778	\$0
Department of Alcohol and Drug Programs	\$3,812	\$15
Department of Alcoholic Beverage Control	\$0	\$1,057
Department of Conservation	\$2,000	\$0
Department of Consumer Affairs	\$2,930	\$65
Department of Corporations	\$57	\$0
Department of Developmental Services	\$0	\$4,211
Department of Fair Employment & Housing	\$1,621	\$0
Department of Finance	\$38	\$0
Department of Financial Institutions	\$0	\$0
Department of Fish & Game	\$0	\$1,231
Department of Food and Agriculture	\$285	\$0
Department of General Services	\$2,884	\$0
Department of General Services, Office of Public School Construction	\$0	\$0
Department of General Services, Div of State Architect	\$0	\$0
Department of General Services, Office State Publishing	\$1,033	\$0
Department of General Services, Service Revolving Fund Accounting	\$15,160	\$0
Department of Health Services	\$0	\$10,160
Department of Industrial Relations	\$1,539	\$0
Department of Insurance	\$0	\$18,393
Department of Justice	\$0	\$18,292
Department of Mental Health- Headquarters	\$890	\$0
Department of Mental Health, Atascadero State Hospital	\$0	\$196
Department of Mental Health, Metropolitan State Hospital	\$1,968	\$524
Department of Mental Health, Napa State Hospital	\$9,600	\$7,149
Department of Mental Health, Patton State Hospital	\$26,172	\$0
Department of Mental Health, Vacaville Psychiatric Program	\$79	\$0
Department of Motor Vehicles	\$51,727	\$220
Department of Parks & Recreation	\$0	\$12,626
Department of Personnel Administration	\$0	\$4,323
Department of Pesticide Regulation	\$0	\$0
Department of Real Estate	\$0	\$0
Department of Rehabilitation	\$0	\$0
Department of Social Services	\$0	\$575
Department of Toxic Substances Control	\$0	\$10
Department of Transportation	\$181,401	\$127,888
Department of Veterans Affairs	\$0	\$0
Department of Water Resources	\$8,010	\$550
Emergency Medical Services	\$0	\$0

**DEPARTMENT OF GENERAL SERVICES
PROMPT PAYMENT REPORT TO THE LEGISLATURE**

AGENCY NAME	#1 DISCOUNTS NOT TAKEN	#2 PENALTIES PAID
Employment Development Department	\$10,637	\$1,499
Fair Employment & Housing Commission	\$451	\$0
Fair Political Practices Commission	\$185	\$0
Franchise Tax Board	\$708	\$0
Health and Welfare Data Center	\$0	\$0
High Speed Rail Authority	\$0	\$0
Housing and Community Development	\$1,726	\$540
Humboldt State University	\$0	\$0
Independent Living Council	\$0	\$0
Medical Assistance Commission	\$199	\$0
Military Department	\$0	\$322
Northern Camps	\$0	\$0
Northern Schools	\$0	\$0
Office of Administrative Law	\$0	\$0
Office of Emergency Services	\$3,400	\$934
Office of Environmental Health and Hazards	\$0	\$0
Office of Real Estate Appraisers	\$0	\$17
Office of Statewide Health Planning and Development	\$0	\$0
Office of Traffic Safety	\$0	\$0
Osteopathic Medical Board of California	\$0	\$0
Prison Industry Authority	\$18,087	\$5,730
San Francisco State University	\$0	\$0
San Joaquin River Conservancy	\$0	\$0
Santa Monica Mountains Conservancy	\$0	\$0
Secretary for Resources Agency	\$41	\$0
Secretary of State	\$0	\$0
State & Consumer Services Agency	\$76	\$0
State Coastal Conservancy	\$0	\$0
State Compensation Insurance Fund	\$0	\$0
State Council on Developmental Disabilities	\$0	\$0
State Lands Commission	\$0	\$1
State Public Defender	\$0	\$0
State Treasurers Office	\$0	\$0
State Water Resources Control Board	\$0	\$0
Stephen P. Teale Data Center	\$0	\$0
Youth & Adult Correctional Agency	\$823	\$12
Youth Authority-Headquarters	\$1,919	\$2,864
Youth Authority, Northern Youth Correctional Reception Center Clinic	\$2,374	\$22
Youth Authority, Southern Reception Center & Clinic	\$1,764	\$426
Youth Correctional Facility, El Paso de Robles	\$15	\$110
Youth Correctional Facility, Fred C. Nelles School	\$1,405	\$0
Youth Correctional Facility, Herman G. Stark	\$2,442	\$474
Youth Correctional Facility, Preston	\$1,923	\$104
Youth Correctional Facility, Ventura	\$1,516	\$0
Youthful Offender Parole Board	\$0	\$9
Totals	\$944,845	\$328,449